

**REPORT OF THE AUDIT OF THE
OWEN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2014**



**ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE OWEN COUNTY FISCAL COURT

June 30, 2014

The Auditor of Public Accounts has completed the audit of the Owen County Fiscal Court for fiscal year ended June 30, 2014.

We have issued an unmodified opinion, based on our audit, on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Owen County, Kentucky.

Financial Condition:

The Owen County Fiscal Court had total receipts of \$5,995,895 and disbursements of \$6,386,597 in fiscal year 2014. This resulted in a total ending fund balance of \$1,149,524, which is a decrease of \$320,702 from the prior year.

Report Comments:

2014-001 The County Should Strengthen Controls Over Capital Assets

2014-002 The County Should Include Public Properties Debt On The Fourth Quarter Report

Deposits:

The fiscal court deposits were insured and collateralized by bank securities or bonds

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Lori H. Flanery, Secretary

Finance and Administration Cabinet

Honorable Casey Ellis, Owen County Judge/Executive

Honorable Carolyn Keith, Former Owen County Judge/Executive

Members of the Owen County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Owen County, Kentucky, for the year ended June 30, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in more fully in Note 1, the financial statement is prepared by Owen County, Kentucky on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of Owen County, Kentucky as of June 30, 2014, and its cash receipts and disbursements, for the year then ended, in accordance with the accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Owen County, Kentucky. The budgetary comparison schedules and capital asset schedule are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. The budgetary comparison schedules and capital asset schedule have been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules and capital asset schedule are fairly stated in all material respects in relation to the basic financial statement.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 23, 2015 on our consideration of Owen County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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Other Reporting Required by Government Auditing Standards (Continued)

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

2014-001 The County Should Strengthen Controls Over Capital Assets
2014-002 The County Should Include Public Properties Debt On The Fourth Quarter Report

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Adam H. Edelen', with a stylized flourish at the end.

Adam H. Edelen
Auditor of Public Accounts

July 23, 2015

OWEN COUNTY OFFICIALS

For The Year Ended June 30, 2014

Fiscal Court Members:

Carolyn H. Keith	County Judge/Executive
James "Asa" Phillips	Magistrate
Robert "Casey" Ellis	Magistrate
Teresa Davis	Magistrate
Troy Bramblet	Magistrate

Other Elected Officials:

Josh Smith	County Attorney
Cindy Walker	Jailer
Joan Kincaid	County Clerk
Leigh New	Circuit Court Clerk
Zemer Hammond	Sheriff
Jimmy Coyle	Property Valuation Administrator
Lannis Garnett	Coroner

Appointed Personnel:

Meagan Greenlee	County Treasurer
Pam Miller	Chief Financial Officer

OWEN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2014

OWEN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2014

	Budgeted Funds				
	General Fund	Road Fund	Jail Fund	Transient Tax Tourism Fund	E-911 Fund
RECEIPTS					
Taxes	\$ 1,453,817	\$	\$	\$ 35,769	\$ 24,800
Excess Fees	204,099				
Licenses and Permits	255				
Intergovernmental	315,900	1,876,427	94,023		
Charges for Services	839,265		75		
Miscellaneous	114,395	5,198	590		
Interest	2,818	2,554			148
Total Receipts	<u>2,930,549</u>	<u>1,884,179</u>	<u>94,688</u>	<u>35,769</u>	<u>24,948</u>
DISBURSEMENTS					
General Government	833,795				
Protection to Persons and Property	994,857		239,794		11,810
General Health and Sanitation	130,044				
Social Services	142,696				
Recreation and Culture	34,976			39,179	
Roads		1,832,100			
Debt Service					
Capital Projects					
Administration	754,355	211,009	15,120		
Total Disbursements	<u>2,890,723</u>	<u>2,043,109</u>	<u>254,914</u>	<u>39,179</u>	<u>11,810</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>39,826</u>	<u>(158,930)</u>	<u>(160,226)</u>	<u>(3,410)</u>	<u>13,138</u>
Other Adjustments to Cash (Uses)					
Lease Proceeds	70,000				
Transfers From Other Funds			200,000		
Transfers To Other Funds	(200,000)				
Total Other Adjustments to Cash (Uses)	<u>(130,000)</u>		<u>200,000</u>		
Net Change in Fund Balance	(90,174)	(158,930)	39,774	(3,410)	13,138
Fund Balance - Beginning (Restated)	646,537	496,203	40,102	6,605	35,101
Fund Balance - Ending	<u>\$ 556,363</u>	<u>\$ 337,273</u>	<u>\$ 79,876</u>	<u>\$ 3,195</u>	<u>\$ 48,239</u>
Composition of Fund Balance					
Bank Balance	\$ 484,148	\$ 197,969	\$ 80,354	\$ 4,516	\$ 48,239
Less: Outstanding Checks	(14,424)	(17,694)	(478)	(1,321)	
Certificate of Deposits	86,639	156,998			
Fund Balance - Ending	<u>\$ 556,363</u>	<u>\$ 337,273</u>	<u>\$ 79,876</u>	<u>\$ 3,195</u>	<u>\$ 48,239</u>

The accompanying notes are an integral part of the financial statement.

OWEN COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2014
(Continued)

	<u>Unbudgeted Fund</u>	
	<u>Public Properties Corporation Fund</u>	<u>Total Funds</u>
RECEIPTS		
Taxes	\$	\$ 1,514,386
Excess Fees		204,099
Licenses and Permits		255
Intergovernmental	1,025,723	3,312,073
Charges for Services		839,340
Miscellaneous		120,183
Interest	39	5,559
Total Receipts	<u>1,025,762</u>	<u>5,995,895</u>
DISBURSEMENTS		
General Government		833,795
Protection to Persons and Property		1,246,461
General Health and Sanitation		130,044
Social Services		142,696
Recreation and Culture		74,155
Roads		1,832,100
Debt Service	933,419	933,419
Capital Projects	211,903	211,903
Administration	1,540	982,024
Total Disbursements	<u>1,146,862</u>	<u>6,386,597</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(121,100)</u>	<u>(390,702)</u>
Other Adjustments to Cash (Uses)		
Lease Proceeds		70,000
Transfers From Other Funds		200,000
Transfers To Other Funds		(200,000)
Total Other Adjustments to Cash (Uses)	<u></u>	<u>70,000</u>
Net Change in Fund Balance	(121,100)	(320,702)
Fund Balance - Beginning	245,678	1,470,226
Fund Balance - Ending	<u>\$ 124,578</u>	<u>\$ 1,149,524</u>
Composition of Fund Balance		
Bank Balance	\$ 124,578	\$ 939,804
Less Outstanding Checks		(33,917)
Certificate of Deposits		243,637
Ending Fund Balance	<u>\$ 124,578</u>	<u>\$ 1,149,524</u>

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TO THE FINANCIAL STATEMENT**

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OWEN COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2014

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of Owen County includes all budgeted and unbudgeted funds under the control of the Owen County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Budgeted Funds (Continued)

Road Fund - This fund is for road and bridge construction and repair. The primary source of receipts for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Transient Tax-Tourism Fund - The primary purpose of this fund is to account for transient room tax receipts and disbursements. The primary sources of receipts for this fund are transient room taxes.

E-911 Fund - The primary purpose of this fund is to account for the dispatch expenses of the county. The primary source of receipts for this fund is the 911 telephone surcharge.

Unbudgeted Fund

The fiscal court reports the following unbudgeted fund:

Public Facilities Construction Corporation Fund - The primary purpose of this fund is to account for the proceeds and debt service of revenue bonds that were issued to fund construction of a justice center.

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursement to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Public Properties Corporation Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from this fund annually.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Owen County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Owen County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of Owen County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

Note 2. Deposits

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2014.

	General Fund	Total Transfers In
Jail Fund	\$ 200,000	\$ 200,000
Total Transfers Out	<u>\$ 200,000</u>	<u>\$ 200,000</u>

Reason for transfers:

To move resources from and to the General Fund and other funds, for budgetary purposes, to the funds that will expend them.

Note 4. Long-term Debt

A. Public Properties Corporation - Court Facilities Project

In April of 2010, Owen County Public Properties Corporation entered into an agreement for the issuance of \$12,555,000 First Mortgage Revenue Bonds, Series 2010, for the costs of the Justice Center project. The bonds were issued for a twenty year period, with semi-annual interest payments due May 1 and November 1 each year, beginning November 1, 2010, and principal due upon maturity at May 1, 2030. As of June 30, 2013, the principal amount outstanding is \$10,605,000. The following schedule outlines debt service requirements for the Revenue Bonds.

Fiscal Year Ended June 30	Principal	Scheduled Interest
2015	\$ 510,000	\$ 399,455
2016	520,000	387,725
2017	535,000	373,165
2018	555,000	357,115
2019	570,000	339,077
2020-2024	3,180,000	1,367,113
2025-2029	3,865,000	680,640
2030	<u>870,000</u>	<u>36,975</u>
Totals	<u>\$ 10,605,000</u>	<u>\$ 3,941,265</u>

OWEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 4. Long-term Debt (Continued)

B. Capital Lease

In July of 2013, Owen County entered into a lease purchase agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) for the purchase of an ambulance. The original lease was for \$70,000 and the county has paid \$15,300 toward this lease during fiscal year 2014 leaving a balance of \$54,700. The lease is scheduled to be paid in monthly increments with final payment due in July 2017.

Fiscal Year Ended June 30	Principal	Interest
2015	\$ 17,267	\$ 1,581
2016	17,717	991
2017	18,179	386
2018	1,537	5
Totals	<u>\$ 54,700</u>	<u>\$ 2,963</u>

C. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue Bonds	\$ 11,105,000	\$	\$ 500,000	\$ 10,605,000	\$ 510,000
Financing Obligations	4,263	70,000	19,563	54,700	17,267
Total Long-term Debt	<u>\$ 11,109,263</u>	<u>\$ 70,000</u>	<u>\$ 519,563</u>	<u>\$ 10,659,700</u>	<u>\$ 527,267</u>

Note 5. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 35.70 percent.

The county's contribution for FY 2012 was \$ 343,618, FY 2013 was \$ 352,674, and FY 2014 was \$341,817.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 5. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 6. Deferred Compensation

The Owen County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

OWEN COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 6. Deferred Compensation (Continued)

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 7. Insurance

For the fiscal year ended June 30, 2014, Owen County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Conduit Debt

This debt may take the form of certain types of limited-obligation revenue bonds, certifications of participation, or similar debt instruments issued to benefit a third party that is not part of the reporting entity. Although conduit debt obligations bear the Owen County Fiscal Court's name as issuer, the Fiscal Court has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf of it is issued. GAAP allow the Fiscal Court to refrain from reporting the conduit debt and the related asset. Since this Fiscal court is not legally, morally, or in any other way responsible for the repayment of conduit debt, these items are not included in the financial statements. The Fiscal Court has \$97,390,000 of conduit debt, the proceeds of which are used to promote the purposes set forth in KRS 103.200 and 103.210.

Note 9. Related Party Transactions

Magistrate Casey Ellis is the owner of Ellis Custom Home Builders. During fiscal year 2014, his company dumped construction materials at the county transfer station. Ellis Custom Home Builders was billed \$90 for the service, and the bill was paid June 2, 2014.

Note 10. Prior Period Adjustments

The beginning balance of the General Fund has been restated by \$(40,541). The restatement was made to establish the Transient Tax Tourism Fund and the E-911 Fund, and to account for prior year voided checks. The following schedule provides a breakdown of the \$(40,541) restatement of the General Fund's beginning balance:

	General Fund
Transient Tax Tourism Fund	\$ (6,605)
E-911 Fund	(35,101)
Prior Year Voided Checks	<u>1,165</u>
Total Restatement - General Fund	<u>\$ (40,541)</u>

OWEN COUNTY
BUDGRTARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

OWEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 1,349,000	\$ 1,349,000	\$ 1,453,817	\$ 104,817
Excess Fees	50,000	139,987	204,099	64,112
Licenses and Permits	100	100	255	155
Intergovernmental	662,138	662,138	315,900	(346,238)
Charges for Services	815,000	817,200	839,265	22,065
Miscellaneous	63,100	100,976	114,395	13,419
Interest	2,500	2,500	2,818	318
Total Receipts	2,941,838	3,071,901	2,930,549	(141,352)
DISBURSEMENTS				
General Government	837,053	907,006	833,795	73,211
Protection to Persons and Property	960,938	941,194	994,857	(53,663)
General Health and Sanitation	132,516	144,308	130,044	14,264
Social Services	180,707	171,318	142,696	28,622
Recreation and Culture	196,600	196,600	34,976	161,624
Administration	735,310	757,361	754,355	3,006
Total Disbursements	3,043,124	3,117,787	2,890,723	227,064
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
	(101,286)	(45,886)	39,826	85,712
Other Adjustments to Cash (Uses)				
Lease Proceeds			70,000	70,000
Transfers From Other Funds	120,900	120,900		(120,900)
Transfers To Other Funds	(261,187)	(261,187)	(200,000)	61,187
Total Other Adjustments to Cash (Uses)	(140,287)	(140,287)	(130,000)	10,287
Net Change in Fund Balance				
	(241,573)	(186,173)	(90,174)	95,999
Fund Balance Beginning	241,573	241,573	646,537	404,964
Fund Balance - Ending				
	\$ 0	\$ 55,400	\$ 556,363	\$ 500,963

OWEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$	\$	\$	\$
Intergovernmental	1,650,766	1,885,818	1,876,427	(9,391)
Miscellaneous		4,639	5,198	559
Interest	2,200	2,200	2,554	354
Total Receipts	1,652,966	1,892,657	1,884,179	(8,478)
DISBURSEMENTS				
Roads	1,355,040	1,940,813	1,832,100	108,713
Administration	264,425	218,343	211,009	7,334
Total Disbursements	1,619,465	2,159,156	2,043,109	116,047
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	33,501	(266,499)	(158,930)	107,569
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(120,000)	(120,000)		120,000
Total Other Adjustments to Cash (Uses)	(120,000)	(120,000)		120,000
Net Change in Fund Balance	(86,499)	(386,499)	(158,930)	227,569
Fund Balance Beginning	86,499	336,499	496,203	159,704
Fund Balance - Ending	\$ 0	\$ (50,000)	\$ 337,273	\$ 387,273

OWEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Intergovernmental	\$ 78,200	\$ 92,566	\$ 94,023	\$ 1,457
Charges for Services	100	100	75	(25)
Miscellaneous	100	935	590	(345)
Total Receipts	78,400	93,601	94,688	1,087
DISBURSEMENTS				
Protection to Persons and Property	307,138	312,418	239,794	72,624
Administration	19,949	29,870	15,120	
Total Disbursements	327,087	342,288	254,914	72,624
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(248,687)	(248,687)	(160,226)	73,711
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	248,687	248,687	200,000	(48,687)
Total Other Adjustments to Cash (Uses)	248,687	248,687	200,000	(48,687)
Net Change in Fund Balance			39,774	39,774
Fund Balance Beginning			40,102	40,102
Fund Balance - Ending	\$ 0	\$ 0	\$ 79,876	\$ 79,876

OWEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

TRANSIENT TAX TOURISM FUND

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 30,000	\$ 30,000	\$ 35,769	\$ 5,769
Total Receipts	30,000	30,000	35,769	5,769
DISBURSEMENTS				
Recreation and Culture	29,100	41,105	39,179	1,926
Total Disbursements	29,100	41,105	39,179	1,926
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	900	(11,105)	(3,410)	7,695
Other Adjustments to Cash (Uses)				
Transfers To Other Funds	(900)	(900)		900
Total Other Adjustments to Cash (Uses)	(900)	(900)		900
Net Change in Fund Balance		(12,005)	(3,410)	8,595
Fund Balance Beginning		6,605	6,605	
Fund Balance - Ending	\$ 0	\$ (5,400)	\$ 3,195	\$ 8,595

OWEN COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

E-911 FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes	\$ 26,000	\$ 26,000	\$ 24,800	\$ (1,200)
Interest		104	148	44
Total Receipts	26,000	26,104	24,948	(1,156)
DISBURSEMENTS				
Protection to Persons and Property	38,500	69,247	11,810	57,437
Total Disbursements	38,500	69,247	11,810	57,437
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(12,500)	(43,143)	13,138	56,281
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	12,500	12,500		(12,500)
Total Other Adjustments to Cash (Uses)	12,500	12,500		(12,500)
Net Change in Fund Balance		(30,643)	13,138	43,781
Fund Balance Beginning		30,643	35,101	4,458
Fund Balance - Ending	\$ 0	\$ 0	\$ 48,239	\$ 48,239

OWEN COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2014

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

OWEN COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014

OWEN COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 615,000	\$	\$	\$ 615,000
Construction In Progress	11,318,352	211,903	11,530,255	
Buildings	1,439,580	11,530,255		12,969,835
Land Improvements	50,000			50,000
Vehicles & Equipment	2,814,759	344,156	33,357	3,125,558
Infrastructure	34,973,049	823,018		35,796,067
 Total Capital Assets	 <u>\$ 51,210,740</u>	 <u>\$ 12,909,332</u>	 <u>\$ 11,563,612</u>	 <u>\$ 52,556,460</u>

OWEN COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2014

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 2,000	10-60
Buildings and Building Improvements	\$ 2,000	10-75
Equipment	\$ 2,000	3-25
Vehicles	\$ 2,000	3-25
Infrastructure	\$ 2,000	10-50

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Casey Ellis, Owen County Judge/Executive
The Honorable Carolyn Keith, Former Owen County Judge/Executive
Members of the Owen County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Owen County Fiscal Court for the fiscal year ended June 30, 2014 and the related notes to the financial statement and have issued our report thereon dated July 23, 2015. The Fiscal Court's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Owen County Fiscal Court's internal control over financial reporting to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Owen County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Owen County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore,, material weaknesses or significant deficiencies may exist that were not identified. However; as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying comments and recommendations as items 2014-001 and 2014-002 to be material weaknesses.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Owen County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

County Judge's Response to Findings

The Owen County Judge's responses to the findings identified in our audit are included in the accompanying comments and recommendations. The County Judge's responses were not subjected to the auditing procedures in the audit of the financial statement, and accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

July 23, 2015

**OWEN COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2014

OWEN COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2014

INTERNAL CONTROL – MATERIAL WEAKNESSES:

2014-001 The County Should Strengthen Controls Over Capital Assets

Controls were not in place to prevent or detect errors on the County's Capital Assets Listing, causing it to be materially understated by \$39,162,839. The County's Capital Assets Listing did not include Land and Infrastructure and reported inaccurate amounts for Buildings, Land Improvements, and Vehicles/Equipment. The total adjustment includes the following:

Land	\$ 615,000
Buildings	94,245
Land Improvements	50,000
Vehicles & Equipment	2,607,527
Infrastructure	35,796,067
Total Adjustments	<u>\$ 39,162,839</u>

The County did not maintain a complete listing of additions and/or deletions. In addition, there were numerous items on the county's asset schedule below the capitalization threshold.

Capital assets are those items purchased or received that exceed the capitalization threshold, as determined by the fiscal court in the capitalization policy, and having a useful life greater than one year. Maintenance of records for fixed assets which fall into any of the following three categories is a requirement of the Uniform System of Accounts for Kentucky counties: Real Estate (land and buildings), Motor Vehicles (including road equipment), and any other fixed assets that meet or exceed the capitalization policy set by the fiscal court.

Per the Department for Local Government, each county office should maintain a current Capital Assets Listing summarizing the following:

- Description of asset (include quantity where applicable)
- Historical cost of the asset (use FMV at date of donation for assets acquired via donation)
- Date of acquisition
- Date of capital improvement (capitalize costs which significantly improve the asset by extending life or greatly improving performance)
- Date of disposal
- Useful life of asset
- Salvage value, if any (or guaranteed residual value if applicable per lease agreement)
- Copies of all lease agreements (note: lease agreements must include terms in writing and signed by all responsible parties)
- Proceeds from sale or disposal of assets (maintain documentation for trade-in allowances, or assets deemed obsolete)

OWEN COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)

INTERNAL CONTROL – MATERIAL WEAKNESSES: (Continued)

2014-001 The County Should Strengthen Controls Over Capital Assets (Continued)

Capital asset records are necessary for proper asset valuation, adequate and accurate insurance coverage, internal control, and long range planning for property replacement. Strong controls reduce the risk of asset misappropriation. We recommend the County prepare and maintain a complete and accurate Master Capital Assets Listing with all required information in order to ensure that assets are valued accurately and that gains and/or losses are calculated correctly. We further recommend they annually review asset addition and disposal records reconciling them to the Master Capital Asset Listing to verify accuracy.

Casey Ellis, Owen County Judge/Executive Response: As of January 2015 with a new administration, a comprehensive capital asset recording system has been implemented. We are currently in progress of updating our list to meet the state standards.

2014-002 The County Should Include Public Properties Debt On The Fourth Quarter Report

The County should include Public Properties debt on the Fourth Quarter Report. Policies and procedures were not in place to ensure accurate reporting of the county's debt. This resulted in the liability section of the quarterly report being incorrect and materially understated by \$10,605,000. The State Local Finance Officer requires that all liabilities be shown in Section III of the Fourth Quarter Report. We recommend they include all county debt on the quarterly report in the future.

Casey Ellis, Owen County Judge/Executive Response: The Judicial Center project had just been completed and all debt reports have been updated.

